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Study

September 2018

Labour Shortage: Here to Stay

Worker Scarcity in Canada and What Businesses Can Do to Respond

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Highlights

39%

of small and medium-sized businesses are already having difficulty finding new workers

The findings in this study are based on a BDC survey of 1,208 entrepreneurs. The survey asked the owners of small and medium-sized businesses a series of questions to assess the impact of labour shortages on their company. We also conducted eight telephone interviews with entrepreneurs to better understand the impact of labour shortages.

Here are the highlights of our findings.

- Close to 40% of Canadian small and medium-sized businesses are already having difficulty hiring new employees and the situation is getting worse. As our population ages and baby boomers retire, growth in Canada's labour force is forecast to fall to near zero. We do not expect labour shortages to get better for at least a decade.
- Labour shortages are holding Canadian businesses back. We found a direct link between a shortage of workers and slower growth in company sales. Specifically, our statistical analysis shows that firms that are more affected by labour shortages are 35% more likely to be low-growth companies.
- Labour shortages are most serious in Atlantic Canada, British Columbia and Ontario. We also found the impact differs by size of business—it is less acute for very small and very large firms. The sectors facing the strongest headwinds include manufacturing, retail trade and construction.
- The most common strategies used by entrepreneurs to combat a labour shortage involve using less qualified and younger workers, improving efficiency by streamlining processes and requiring staff to work longer hours.
- Companies with strong HR policies are more likely to keep current employees, attract new ones and grow sales faster. In fact, our study found businesses with strong HR policies are 66% more likely to generate annual sales growth in excess of 10%.
- Entrepreneurs are missing an opportunity by not turning to under-utilized segments of the labour force to fill their hiring needs. Our study found that among the strategies used to find workers, entrepreneurs were least likely to consider hiring newcomers to Canada.

Highlights

If you are having trouble recruiting or retaining employees, you need to get ahead of the problem. This study describes a series of strategies that can help you. Here is an overview.

All businesses

- Develop or refine your employee value proposition to make your workplace more attractive to existing and new employees.
- Hire workers from underutilized segments of the labour force, including immigrants.

Smaller businesses

- Formalize your HR policies to put your business on a more solid footing and make it more attractive to recruits and existing employees.
- Improve your operational efficiency by using such tools as key performance indicators, dashboards and process maps.
- Think about how you could use more technology throughout your business. A good start is to go paperless.
- Outsource low-value work so you can focus on activities where you have a competitive edge.

Medium-sized businesses

- Standardize and document processes, such as purchasing, production, shipping and client relationship management.
- Consider investing in an enterprise resource planning system, customer relationship management software, and supply chain and inventory management systems.

Larger businesses

- Work to digitize your production processes and implement other advanced manufacturing techniques. Approaches might include investing in equipment that allows you to monitor and control production in real time, and experimenting with 3D printing.

1 No relief in sight

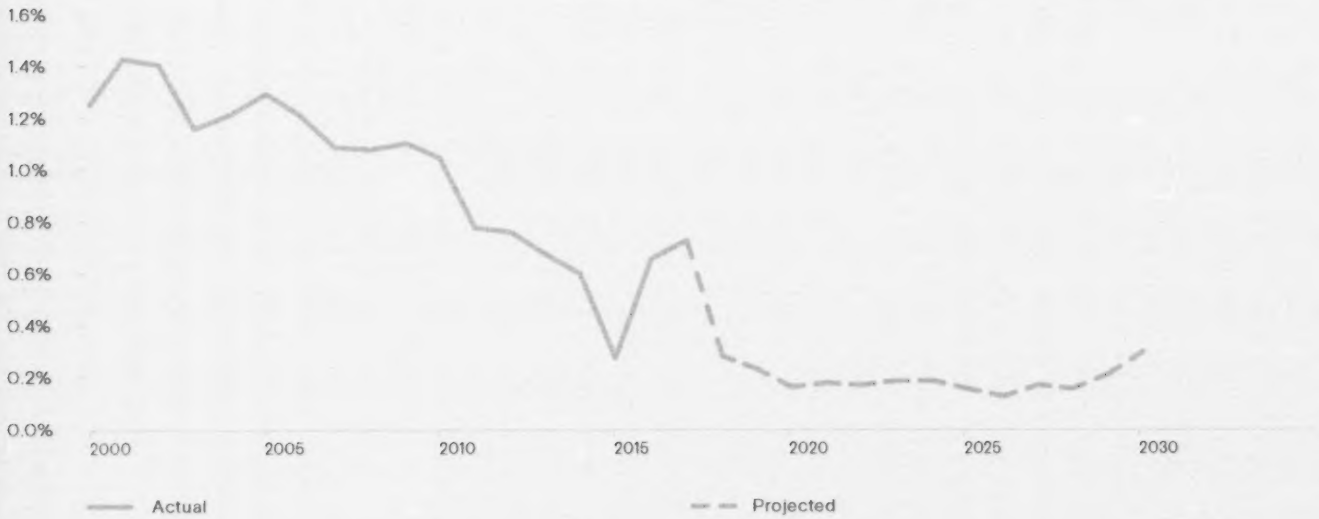
We do not expect labour shortages to get better for at least a decade

Labour shortages in Canada are, in part, due to the strong demand for workers generated by robust economic growth here and around the world. Real gross domestic product (GDP) is expected to grow globally and in Canada by 3.9% and 2.0%, respectively, in 2018. The expansion should continue into 2020, spurring continued healthy demand for workers.

On the supply side, the growth of Canada's workforce has fallen since 2000 and, despite a recent bump, the downward trend is expected to continue. The decline is a result of the large baby-boom generation heading to retirement. Although immigration should ease the situation, growth in Canada's workforce is expected to stay close to zero in the years ahead. Close to **40% of small and medium-sized businesses are already having difficulty finding new workers**, according to our survey.

Figure 1 shows Canada's labour force growth rates since 2000 and projected growth rates to 2030. Notice that the growth rates are expected to remain below 0.2% for the next decade. The bottom line: **Don't expect labour shortages to get better.**

Figure 1 — **Canada's declining labour force growth rate**



Source: Statistics Canada, CANSIM 051-0001 and 052-0005.

2 What is the impact on businesses?

Businesses that suffer more from labour shortages grow more slowly

Labour shortages are hurting small and medium-sized enterprises (SMEs) in a number of ways. They lead to unfilled client orders, declining competitiveness and deteriorating product/service quality, among other problems. In fact, according to our findings, businesses that suffer more from labour shortages grow more slowly.

Our analysis indicates that a firm that is more affected by labour shortages is 65% more likely to be a low-growth company.[1]

This finding comes from an index we developed to help assess the impact of labour shortages on SMEs. The index accounts for the type and scale of impacts on businesses. For example, not being able to fill a client order or providing poor quality work is likely to hurt a business more in the long term than having to raise wages. The index takes this, and other differences, into account.

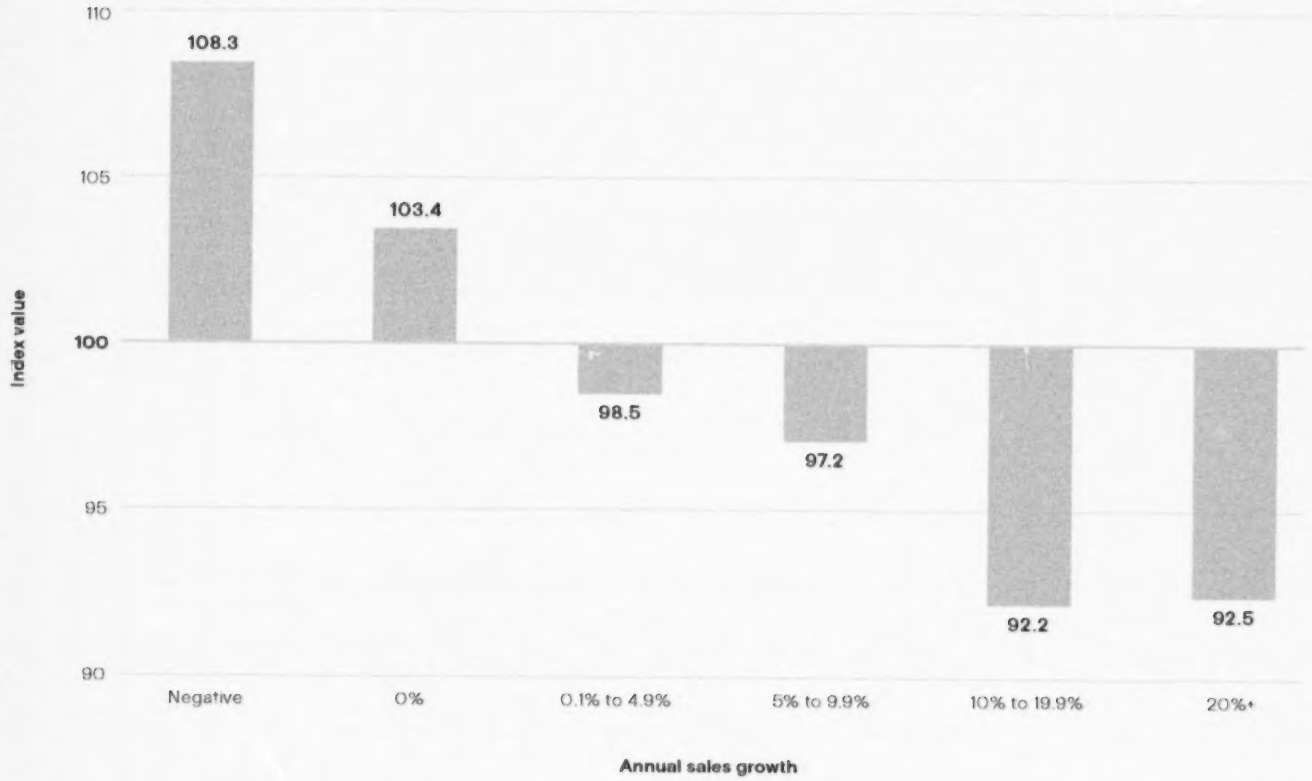
Figure 2 illustrates the relationship between sales growth and the labour shortages impact index. The average index value for all firms we surveyed is set to equal 100. Higher index values indicate that a firm is more affected by labour shortages. Notice that businesses with negative or zero sales growth suffer more from the shortages, with index scores above the average of 100, whereas firms with sales growth of 10% or higher have index scores well below the average. This confirms other findings in the survey and feedback from entrepreneurs—**the shortage of workers in Canada is holding SMEs back**. Please see Annex A for more details on how we calculated the index values.

If your company is having trouble hiring workers, you should be proactive about solving the issue. See the "What you can do" section of this study for advice on how to tackle the problem.

1 For the purposes of this analysis, a low-growth firm is defined as a company with annual sales growth of less than 10%.

Figure 2 — **Labour shortages slow revenue growth**

To what extent has the labour shortage affected your business (as measured by BDC's labour shortage impact index)?



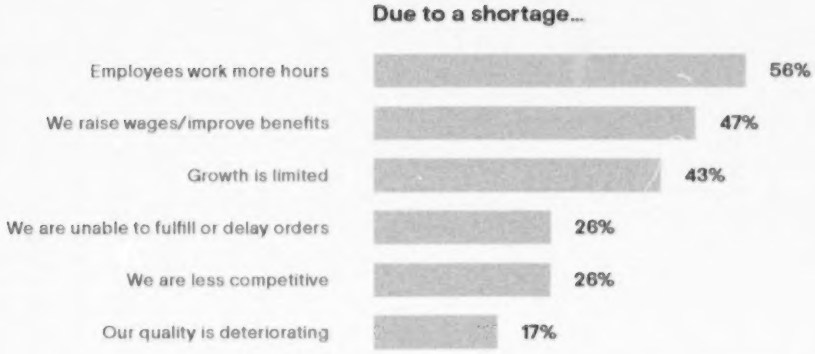
Source: Maru/Matchbox survey on Canada's labour shortage, 2018. Results exclude respondents who said, "I don't know" or "I prefer not to answer." Data are filtered to exclude firms with less than $500,000 in annual sales. Results are weighted by region and company size to reflect Canada's economy more accurately. n = 583.

How labour shortages hurt SMEs

Because of labour shortages, **56% of entrepreneurs said existing staff must work more, while 47% of respondents said they have had to raise wages. Another 43% said a shortage of workers limits growth**. Many entrepreneurs also said their companies have been unable to fill or have delayed orders, that they have become less competitive and that the quality of their goods/services has deteriorated.

The impact of missed or delayed orders, lower competitiveness, and quality problems on a business is self-evident. The indirect costs of labour shortages are more subtle but no less damaging. During the telephone interviews, entrepreneurs noted they pay an opportunity cost when senior staff are forced to spend more time on the shop floor because of a lack of workers. More time spent supporting production means less time spent on new projects, nurturing client relationships and other high-value activities. These missed opportunities hold a firm back relative to peers and hinder its growth.

Figure 3 — **Impact of labour shortages on SMEs**



Source: Maru/Matchbox survey on Canada's labour shortage, 2018. Results exclude respondents who said, "I don't know" or "I prefer not to answer." Results are weighted by region and company size to reflect Canada's economy more accurately. n = 1,046 to 1,082.

3 Where labour shortages are most acute

Atlantic Canada, British Columbia and Ontario have the most serious labour shortages

Our survey shows that labour shortages are most serious in Atlantic Canada, British Columbia and Ontario. We also found the impact differs by size of business—it is less acute for very small and very large firms. The sectors facing the strongest headwinds include manufacturing, retail trade and construction. Overall, the 39% of respondents indicating it is difficult to hire new employees compares to 25% who indicated it is easy to hire.

The extent of labour shortages in the Atlantic region was surprising because it has a higher unemployment rate than the Canadian average. Factors contributing to this result include the region's older population, lower labour force participation rate and higher share of seasonal workers.

The region facing the fewest challenges was the Prairies (Manitoba, Saskatchewan and Alberta). This likely reflects a continuing hangover from the downturn in oil prices in 2016 that led to higher unemployment in Alberta and Saskatchewan.

Figure 4 — **Hiring difficulty, by region**

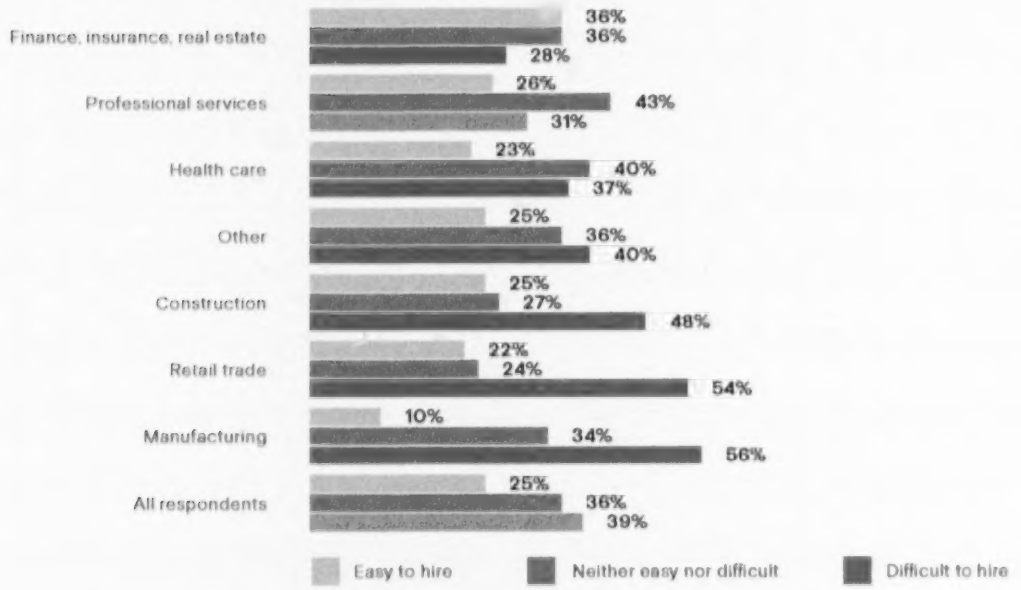
Percentage of entrepreneurs who said they had difficulty hiring new employees during the last 12 months.

Source : Maru/Matchbox survey on Canada's labour shortage, 2018. Results are weighted by region and company size to reflect Canada's economy more accurately. n = 1,208.

The manufacturing, retail and construction sectors are most affected by labour shortages. Respondents in these three sectors indicated a higher level of difficulty hiring new employees than the sample average of 39%. This result holds regardless of the businesses' size or location.

Figure 5 — **Hiring difficulty, by sector**

During the last 12 months, how easy has it been for your business to hire new employees?



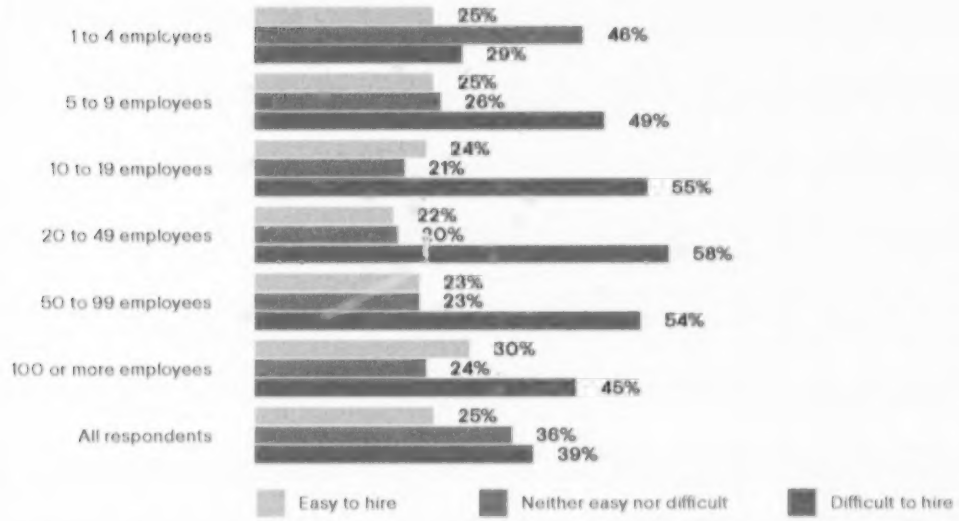
Source : Maru/Matchbox survey on Canada's labour shortage, 2018. Results exclude respondents who said, "I don't know" or "I prefer not to answer." Results are weighted by region and company size to reflect Canada's economy more accurately. n = 1,067.

Very small firms—those with fewer than five employees—appear to be less affected by labour shortages. The search for workers jumps in importance once a firm employs five or more workers. Our survey data indicate that companies with fewer than five employees tend to grow more slowly than other businesses, tempering their hiring needs. What's more, our telephone interviews with owners of very small businesses found that family members often work in the business. This, no doubt, makes hiring and retention easier.

The data show the severity of hiring challenges peaks for firms with 20 to 49 employees and then drops for firms with 100 or more employees. Larger firms are more likely to benefit from greater brand awareness and more sophisticated HR expertise to support their hiring requirements. Figure 6 provides an overview of the results.

Figure 6 — **Hiring difficulty, by size of firm**

During the last 12 months, how easy has it been for your business to hire new employees?



Source : Maru/Matchbox survey on Canada's labour shortage, 2018. Results are weighted by region and company size to reflect Canada's economy more accurately. n = 1,208.

4 What can you do?

Necessity is forcing entrepreneurs to hire less-qualified and younger staff

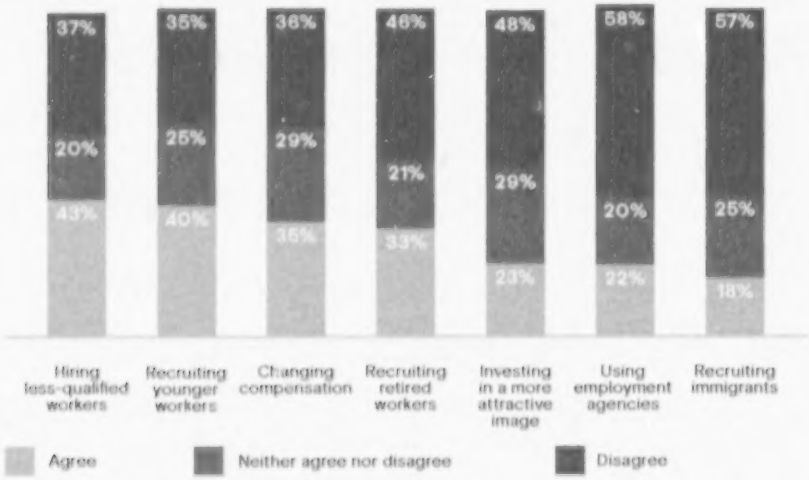
We asked entrepreneurs about the strategies they use to mitigate the effects of labour shortages on their business. This section outlines their responses and provides advice on how you can improve hiring and retention in your company. You will also find stories of entrepreneurs who are using a variety of approaches to combat their worker shortage.

Hiring strategies

According to our survey, the most common hiring strategies involve using less-qualified and younger workers. This result aligns with feedback from entrepreneurs during telephone interviews. During those conversations, business owners indicated that necessity is forcing them to hire less-experienced staff. Instead of seeking workers with a lot of experience, they are focusing on a candidate's attitude and potential fit with their company's culture, with the intent of filling gaps in experience through training. This comes at a cost. As previously mentioned, the additional time and effort required to train junior employees keep senior staff away from higher value tasks, such as developing client relationships or new projects.

Entrepreneurs also said they had changed their compensation practices to attract new employees and retain existing ones. Business owners we interviewed said they had increased base and performance pay, offered company stock to key employees, introduced matching RRSP contributions, organized social activities and allowed flexible schedules to enable a better work-life balance.

Figure 7 — **Hiring strategies to mitigate labour shortages**



Source: Maru/Matchbox survey on Canada's labour shortage, 2018. Results exclude respondents who said, "I don't know" or "I prefer not to answer." Results are weighted by region and company size to reflect Canada's economy more accurately. n = 1,123 to 1,156.

Our survey indicates that hiring strategies pursued by firms vary by the size of the business. Firms with fewer than 99 employees are most likely to resort to recruiting younger and less-qualified workers. Although larger businesses are more likely to pursue all hiring strategies, they are most likely to change their compensation practices and use employment agencies to deal with labour shortages. Larger companies have deeper pockets to increase pay and benefits, and to cover the cost of employment agencies. Table 1 provides more detail on these findings.

Table 1 — **Hiring strategies, by size of business**

	Fewer than 20 employees	20 to 99 employees	100 employees or more
Hiring less-qualified workers	40%	62%	45%
Recruiting younger workers	39%	53%	55%
Changing compensation practices	31%	56%	64%
Recruiting retired workers	33%	32%	38%
Investing in a more attractive image	21%	38%	47%
Using employment agencies	18%	45%	63%
Recruiting immigrants	16%	33%	32%

Finding workers in a competitive labour market

The following sections provide advice on how to make your business more attractive to new and existing staff, and on filling your labour shortages by hiring immigrants.

Developing an employee value proposition

Why would a talented person choose to work for your company? An employee value proposition (EVP) seeks to answer this question by defining your company's vision, the values it stands for, and the reasons people are proud and motivated to work for you. A report[2] by the recruitment consultancy Michael Page provides the following advice on how to create a compelling EVP.

→ **Understand how your existing employees perceive your business**

What do they value the most about working for you? Why do they stay? Why do they leave? You can gather this information through surveys, exit interviews, feedback from former employees or informal conversations with staff.

→ **Determine the key selling points of your business for employees**

Identify the aspects of your company that people value the most. Use this information to draft an EVP, ensuring it aligns with your strategic objectives and sufficiently differentiates your business from competitors. It should be broad enough to appeal to different types of workers. Validate your draft EVP with employees and outsiders.

→ **Communicate the message to potential and existing employees**

Share your EVP through all hiring channels, including the company website, advertising and the interview process for job candidates. Meet new hires and existing employees regularly to share your vision, values and objectives for your business with them. Be transparent.

Labour shortages are here to stay and competition for talent will only intensify. Start thinking about marketing your business to employees the same way you market your products and services to clients. Developing an EVP will help you focus your efforts to retain top performers and attract new talent. Best of all, it's a low-cost strategy with the potential to yield excellent results.

2 Michael Page, December 2016, "Create a great employee value proposition," https://www.michaelpage.co.uk/advice/management-advice/attraction-and-recruitment/create-great-employee-value-proposition.

Chris and Rebecca Troelstra

> **“We’re looking to build a $1-billion business, so we need exceptional people.”**

A flexible work environment helps this company find and keep staff

Fast-growing tech start-up strives to stand out from the crowd

No one is punching a time clock at AvenueHQ. In fact, employees can come and go as they please at the fast-growing Vancouver real estate technology company—as long as they get their work done and keep the customers happy.

“We’re flexible on vacations, personal time off, working from home and working hours,” CEO Chris Troelstra says. “The message is, ‘Get your work done. Make sure your team and our customers are in a position to succeed, and outside of that, it’s pretty much fair game.’”

Offering highly flexible work arrangements is just one way Avenue is working to find and retain employees to keep up with its extraordinarily rapid growth. The company, which creates and manages websites and other digital marketing tools for real estate professionals across North America, expects revenue to triple in 2018.

Meanwhile, the employee count should expand to 90 by the end of the year, up from 12 at the start of 2017. The company is aiming to have 150 to 200 employees by the end of 2019.

While it’s had good luck attracting entry-level workers, the challenge has been finding senior executives, middle managers and specialized talent, such as software engineers, in Vancouver’s tight labour market. Recruiting sales managers has been especially tough and is hindering the company’s growth, Troelstra says.

“We have spent a tremendous amount of energy and effort on people operations,” says Troelstra, who founded Avenue in 2013 with his wife, Rebecca, the company’s chief operating officer. “We’re looking to build a $1-billion business, so we need exceptional people.”

The company is hiring a director of people operations and a recruiting coordinator to solve staffing bottlenecks and free other executives from the HR duties that come with a rapidly growing business.

Besides its flexible work environment, Avenue strives to find new employees and retain the ones it has by offering a stock-option plan and an array of benefits.

“There are a lot of tech companies out there. We want to stand out, and not only in the recruiting process, but also to retain talent by creating an amazing environment for our employees.”

The unemployment rate among new Canadians is higher than that among native-born Canadians

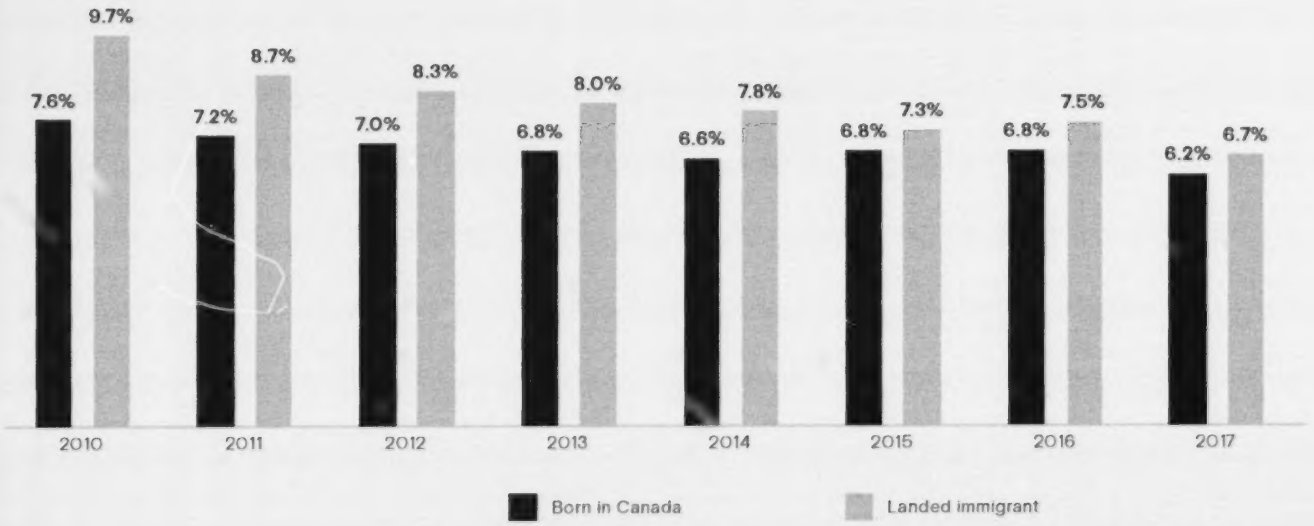
Hiring immigrant workers

If you're having trouble recruiting, think about targeting underused segments of the labour force. These include new immigrants, Indigenous people, disabled people and retired workers. This section focuses on helping you recruit immigrant workers.

The unemployment rate among new Canadians is higher than that among native-born Canadians, although the gap has been shrinking in recent years as the labour market has heated up. Figure 8 compares unemployment rates for both groups since 2010.

The data are skewed by Vancouver and Toronto, where large populations of newcomers integrate better into the labour market than they do in Canada as a whole. When these two cities are removed, the gap in unemployment rates widens significantly. Excluding Vancouver and Toronto, the gap in unemployment rates is 1.2 percentage points, rather than 0.5, in 2017.

Figure 8 — **Unemployment rates for landed immigrants versus Canadian-born workers**



Source: Statistics Canada, CANSIM 282-0105 and 282-0106; BDC calculations.

Despite the greater availability of immigrant workers, respondents to our survey indicated that, of the strategies they use to respond to labour shortages, **recruiting newcomers is the one they are least likely to use**. This result holds true regardless of sector (with the exception of health care), for small and large firms, and for urban and rural businesses. This is a significant missed opportunity to help solve labour shortages.

Resources for finding immigrant workers

If you are a business owner having trouble recruiting, immigrants might be the answer. Table 2 sets out a few of the many programs and agencies across Canada that can help.

Table 2 — **Programs and agencies focusing on employment for newcomers**

Organization/program	Regional focus	How they can help
Immigration, Refugees and Citizenship Canada	National	There are various federal programs for hiring foreign workers and newcomers. For more information, visit the Hire foreign workers section of the Government of Canada's Canada.ca website.
Immigrant employment councils and networks	Canada's major urban centres	There are numerous independent organizations that work to better integrate immigrants into their local labour market. Each council can help entrepreneurs develop links with immigrant-led professional associations and disseminate job postings, among other activities. The councils are located throughout Canada in urban centres, including Vancouver, Calgary, Edmonton, Winnipeg, Toronto, Montreal and Halifax.
Atlantic Immigration Pilot Program	Atlantic provinces	This program is a collaboration between the federal and provincial governments to help employers in Atlantic Canada hire qualified candidates for jobs they haven't been able to fill locally. Candidates can be living overseas or living in Canada temporarily. The program also provides links to websites of service providers and immigrant communities in Atlantic Canada that can help disseminate job postings.
Immigrant Services Association of Nova Scotia (ISANS)	Nova Scotia	ISANS helps immigrant job-seekers connect with employers in Nova Scotia through an online recruitment tool. The organization supports and coaches newcomers to Canada during the hiring process. ISANS also has a database of employers that have recently hired immigrant job-seekers and helps immigrants seeking work to connect with these companies.
Interconnection	Quebec	Interconnection is a program operated in partnership with Emploi-Québec that helps connect employers and qualified newcomers through free pairing activities.
Employer Engagement Unit of Manitoba	Manitoba	The Employer Engagement Unit creates partnerships with Manitoba employers seeking to recruit and retain experienced, internationally trained workers and students for full-time, long-term jobs in Manitoba. The unit can help employers take advantage of overseas events and initiatives targeting the recruitment of skilled workers.
International Qualification Assessment Service (IQAS)	Alberta	This online tool, developed by the Government of Alberta, helps employers assess international educational and training credentials. Specifically, the IQAS issues certificates that compare credentials from other countries to educational standards in Canada.
ACCESS Employment	Ontario	ACCES Employment connects employers with qualified job seekers from diverse backgrounds that may face barriers to employment and difficulty integrating into Canada's job market. The organization provides employers with recruitment services, support with the Canada-Ontario Job Grant program and corporate training. Some of the services that are provided free of charge include advertising job postings, pre-screening of candidates, organizing events for recruitment, networking and mentoring, and support during an employee's on-boarding process.

44%

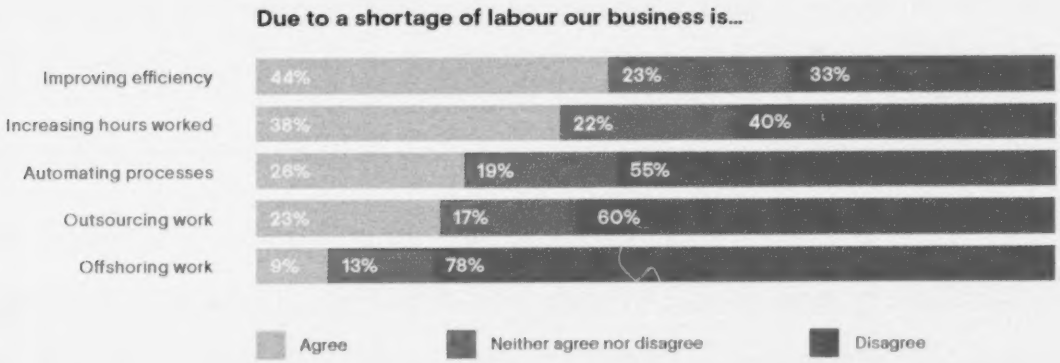
of entrepreneurs try to improve efficiency by streamlining processes

Operating strategies

Our survey asked entrepreneurs to identify operating strategies they pursue to mitigate the impact of labour shortages. Of the respondents, **44% indicated they try to improve efficiency by streamlining processes and 38% said existing staff must work more** because of labour shortages.

Entrepreneurs are least likely to outsource or offshore work. The low level of offshoring is good news for Canada because it means we are not losing jobs to other countries because of labour shortages. Figure 9 provides an overview of these results.

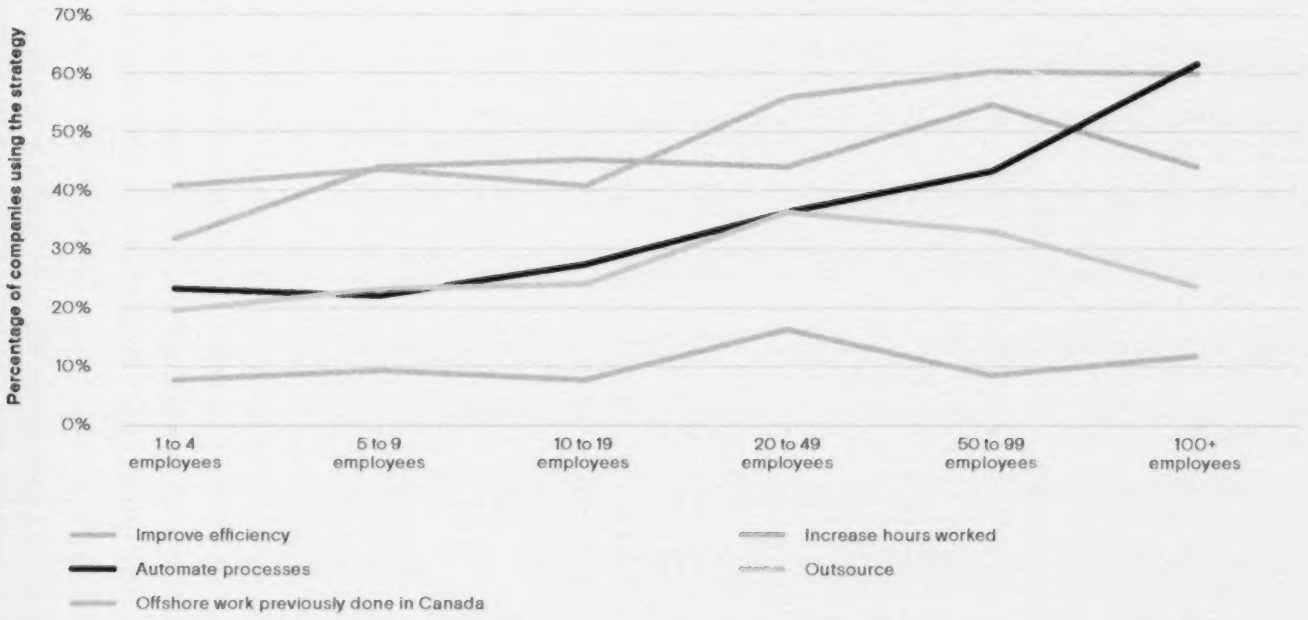
Figure 9 — **Operating strategies to mitigate labour shortages**



Source: Maru/Matchbox survey on Canada's labour shortage, 2018; BDC calculations. Results exclude respondents who said, "I don't know" or "I prefer not to answer." Results are weighted by region and company size to reflect Canada's economy more accurately. n = 1,110 to 1,167.

Our survey results also show that the operating strategies firms pursue depend on the size of the business. Although larger firms are more likely to pursue all the operating strategies outlined in our survey, they tend to focus on improving efficiency and automating processes. (See Figure 10.) Intuitively, this makes sense, because large investments are often required to automate production and these, in turn, depend on economies of scale to pay off. Better access to financing by medium-sized and large firms also explains why they are more likely to automate.

Figure 10 — **Operating strategies, by size of business**



Source: Maru/Matchbox survey on Canada's labour shortage, 2018; BDC calculations. Results exclude respondents who said, "I don't know" or "I prefer not to answer." Results are weighted by region and company size to reflect Canada's economy more accurately. n = 1,110 to 1,167.

Table 3 provides advice on operating strategies to fight labour shortages. Generally, you should focus on improving efficiency, automating processes and using more technology, to reduce your dependence on labour.

Table 3 — **Operating strategies to mitigate labour shortages**

Smaller businesses (fewer than 20 employees)	→ Book time each month to pursue projects that will improve the way your business functions. Streamline processes to ease the workload and allow you to focus on higher value tasks. → Learn about improving operational efficiency, including such concepts as key performance indicators (KPIs), dashboards, Gemba walks and process maps. BDC provides a series of tools and learning aids to help you. Learn more. → Think about automating your operations and using more technology. Approaches could include going paperless or investing in new equipment. For example, a retailer we interviewed invested in a security camera system to reduce the number of floor employees required. This helped her compensate for hiring challenges. → Outsource work that is not your strong suit or that others can do better. The owner of a heating and air conditioning company we interviewed regularly outsources work that requires special tools to another firm. This frees his company to focus on activities where it has a competitive edge.
Medium-sized businesses (20 to 99 employees)	→ Embrace lean techniques to reduce waste and inefficiencies in your operations. This could include establishing a formal continuous improvement plan, creating performance dashboards to track KPIs and improving supervisor performance. Learn more about lean manufacturing. → Standardize and document processes, such as those related to purchasing, production, shipping and client relationship management. Standardization reduces the risk of error and improves consistency and quality. → Think about how you can use technology more effectively. Consider investing in an enterprise resource planning system or customer relationship management software, or automating your supply chain and inventory management systems. Learn more about improving your profits.

Larger businesses

(100 employees or more)

- Digitize your production processes and implement other advanced manufacturing techniques. For instance, you could invest in equipment that allows you to monitor and control production in real time, and experiment with 3D printing. Learn more about Industry 4.0 advanced manufacturing techniques.
- Once you have standardized processes in place, think about converting them into electronic work instructions (EWIs). Unlike their paper counterparts, EWIs include visual tools, such as videos, images and even 3D illustrations. Engineers and supervisors document the best way to do a job and upload pictures, videos and 3D illustrations to the software. These instructions are then available for other employees to view.

  EWI software ensures staff is using the latest instructions; reduces training time; and eliminates waste, errors and delays. Further, if your workforce includes newcomers with a mother tongue other than English, EWIs can help them understand instructions and processes through visual aids.
- If you are having trouble recruiting personnel with very specialized skills, think about acquiring a business that already employs people with the skills you need. Get advice to help you buy a business.

Nicholas and Jean-François Drouin

> **“Recruitment is an enormous, constant problem for us. It’s a brake on our growth.”**

This company takes a multi-pronged approach to combatting its labour shortage

Manufacturer has had to turn away sales for a lack of workers

Nicholas Drouin faces a dire shortage of skilled labour at his fast-growing company, Produits Matra. The 240-employee company, which makes pine window and door components, siding and mouldings, is constantly trying to hire workers but often waits weeks without getting a single résumé.

In one case, Matra spent three years trying to find an electro-mechanic. Drouin finally had to hire someone in the Philippines to come to his factory in the Beauce region, south of Quebec City.

The shortage of skilled workers is so bad Drouin says he’s forced to turn away sales. He just doesn’t have the personnel to do the work. Baby boomers are retiring, while a low unemployment rate in the region means fierce competition for remaining workers.

“Recruitment is an enormous, constant problem for us,” says Drouin, who is co-CEO with his brother Jean-François. “It’s a brake on our growth.”

Matra’s solutions? The company has worked hard to make its factory more efficient so it can produce more with the same number of workers. Matra has four different projects on the go to invest in labour-saving equipment.

The equipment includes automated painting, sorting and stacking systems, as well as high-tech machinery to increase automation in a wood-pellet plant that was rebuilt after a fire in 2016.

Drouin expects the new equipment will be able to carry out tasks that would otherwise require 19 people, freeing up employees to take on more of the orders that Matra now turns away.

“We’re working hard to adopt new technology and become more efficient,” Drouin says. “We have no choice if we want to keep growing.”

Matra has also expanded recruitment efforts beyond Canada’s borders. About 5% of the company’s workers are newly arrived immigrants.

And Matra is focusing heavily on retaining existing employees. Initiatives include employee outings paid for by the company, lunch gatherings, and a reward system to recognize performance, low absenteeism and innovation.

Finally, Matra has put a lot of effort into training. The company created a skill profile for each position and now targets training efforts to fill gaps in employee competencies.

5 The benefits of strong HR policies

Firms with strong HR policies outperform their peers

Strong HR policies facilitate hiring, improve retention, and reduce legal and reputational risks, among other benefits. Our research shows that firms with strong HR policies outperform their peers. Specifically, our analysis indicates that a firm with strong HR policies is 66% more likely to generate annual sales growth in excess of 10%. This result holds even after controlling for other variables that affect sales growth, such as size, sector and location.

We asked entrepreneurs a series of questions to assess the strength of their business's HR practices, including whether their company:

- has an employee manual (a manual describes a firm's approach and policies to such things as vacation entitlements, leaves of absence, sick days and employee performance)
- has a formal and standardized selection process for hiring new employees
- has formal compensation practices, including performance pay
- has training and career development programs
- promotes self-managed teams and decentralized decision-making
- shares information freely with employees

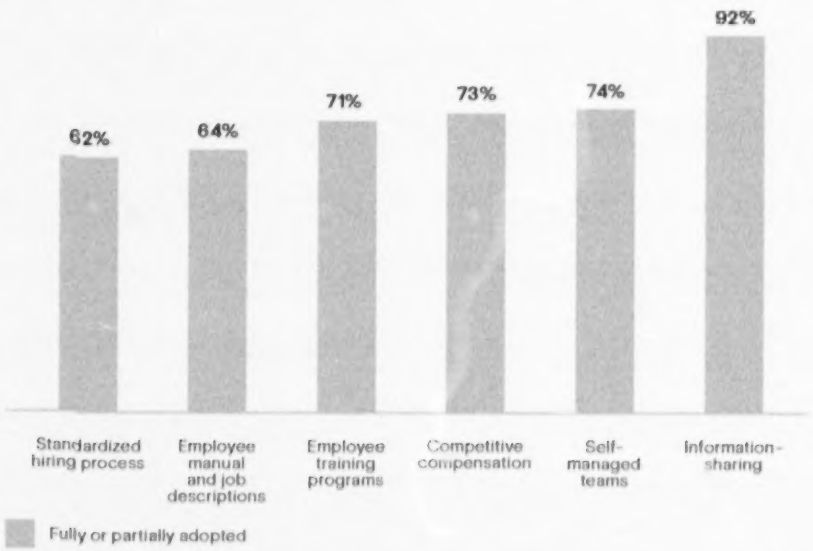
These six practices define successful HR policies, according to our literature review.

The majority of respondents to our survey indicated they have either fully or partially implemented these practices. Specifically, between two-thirds and three-quarters of respondents had adopted the HR practices we asked about, with the exception of information-sharing with employees, which almost all firms said they do. Figure 11 provides an overview of these results.

Once firms grow beyond 20 employees, their HR policies start to become more sophisticated

Figure 11 — **Overview of HR practices**

To what extent has your business adopted the following HR practices?



Source: Maru/Matchbox survey on Canada's labour shortage, 2018. Results exclude respondents who said, "I don't know" or "I prefer not to answer." Results are weighted by region and company size to reflect Canada's economy more accurately. n = 893 to 1,055.

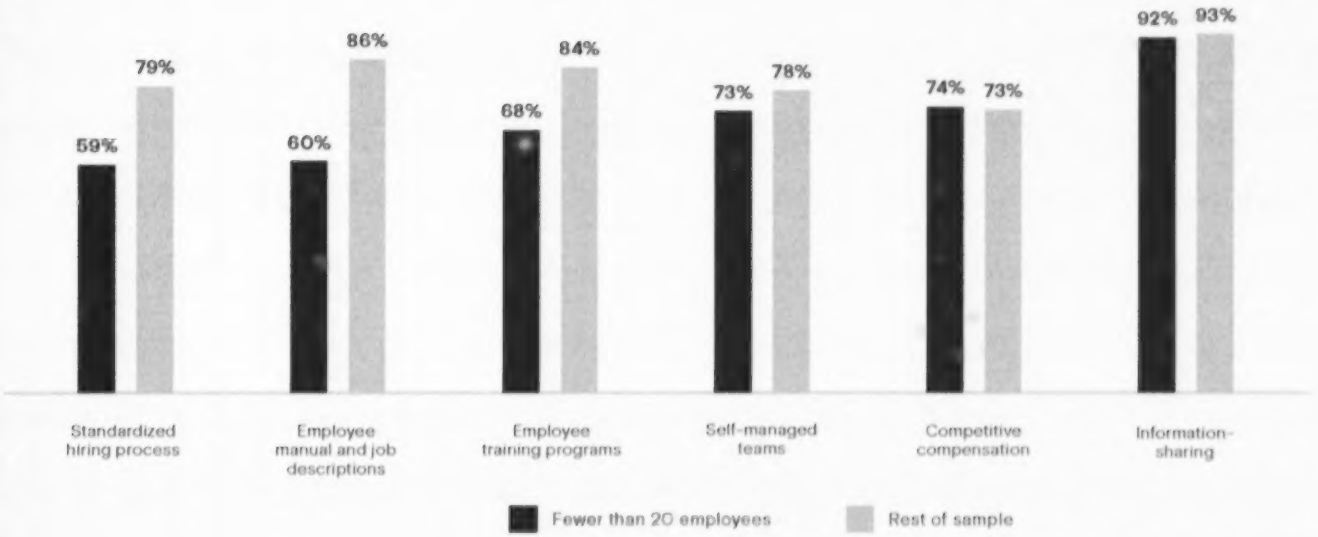
Our survey results show that the HR practices we asked about are, generally, less likely to be in place in **smaller firms—those with fewer than 20 employees**. Once firms grow beyond that threshold, their HR policies start to become more sophisticated. If you own a small firm with about 20 employees and have plans to grow, think about introducing more formal HR practices. See page 24, for three fundamental HR practices your company can implement as a foundation for other improvements. You should also consider the following steps:

- **Standardize your hiring processes and formalize job descriptions.** This will help you better understand what kind of employees you want before you start recruiting. Once you have a clear idea of who you're looking for, you can create a focused campaign to find them.
- **Improve access to training programs.** This will help improve the skills of your workforce and increase job satisfaction. Training will raise productivity and reduce turnover. Losing employees is expensive and frustrating.
- **Review compensation practices.** This will help ensure your compensation framework is competitive. A BDC study[3] shows that top-performing SMEs in Canada compensate their workers better than their peers do, by paying about 7% more than the average compensation in their sector. However, you should think beyond salary. Explore compensation that is linked to performance—such as profit-sharing, stock options, commissions and bonuses.

3 BDC, "Built for Performance," https://www.bdc.ca/en/about/sme_research/pages/built-for-performance.aspx.

Figure 12 — **HR practices in smaller firms**

To what extent has your business adopted the following HR practices?



Source: Maru/Matchbox survey on Canada's labour shortage, 2018. Results exclude respondents who said, "I don't know" or "I prefer not to answer." Results are weighted by region and company size to reflect Canada's economy more accurately. n = 442 to 766.

Strong HR processes are tied to higher growth in a number of ways. For example, firms with competitive compensation practices are more likely to retain employees and avoid costly turnover. An article in *The Economist* estimates the cost of losing an employee at between half and one and a half of his or her annual salary.[4]

Stronger HR practices will also enable you to find better talent, while increased training will result in more productive staff. Using our survey data, we compared the growth performance of firms with stronger HR policies to that of companies with weaker ones. As mentioned before, our analysis indicates that a firm with stronger HR policies is 66% more likely to be a high-growth firm—one that generates annual sales growth greater than 10%—than a firm with weaker HR policies.

4 *The Economist*. "Labours lost", https://www.economist.com/business/2000/07/13/labours-lost.

Jacques Légaré
Director of Business Strategy
at BDC Advisory Services

How to create strong HR policies to support your company's growth

Three building blocks to find and retain top workers

Formal HR policies help you avoid misunderstandings, prevent legal claims and reduce management time spent on low-level staffing issues. They also show existing staff and new employees you are committed to running a fair, professional organization.

Jacques Légaré, Director of Business Strategy at BDC Advisory Services, says the following three tools should form the foundation of your employment policies as your company grows.

An employee manual

An employee manual brings together your company's rules on such matters as compensation, work schedules, vacations, leaves, dress code and personal activities.

When the rules are clear and everyone is subject to them, employees know where they stand and are likely to perceive the system as fair to all. For managers, a manual saves time and headaches by freeing them from answering basic questions and settling conflicts. It can also be an important factor in defending against employee legal claims, by showing the company acted according to its policies and in accordance with labour laws and regulations.

The manual should be continuously updated by an HR professional as your policies and labour laws change.

Job descriptions

It's only natural for people to want to know what they're supposed to be doing, but the benefits of job descriptions don't stop there. They're also important for performance management and discipline. After all, you can't fairly judge how well someone is doing a job and provide feedback if it's unclear what the position entails. Job descriptions will also help you in your recruiting efforts by clarifying what kind of candidates you're looking for and allowing you to prepare realistic, informative job postings.

An organization chart

As companies grow, job responsibilities and reporting structures often get fuzzy. This can lead to poor management and conflicts among employees who don't know where they fit in. To create an org chart, start by identifying the responsibilities of everyone in the business and who they report to. Clearly defined roles and reporting structures are the cornerstone of a well-run business. Once you have created your org chart, you should share it throughout the company.

Légaré, whose team advises entrepreneurs on implementing HR systems, says with these three basic tools in place, you'll be in a position to build on them with performance management and employee engagement initiatives. He recommends getting expert help in creating the tools because of the complexity and legal issues involved in labour relations.

A call to action

Our study found that labour shortages can hurt your business in several ways. For instance, you may be unable to fill client orders in a timely fashion; your competitiveness may decline; and the quality of products or services may suffer.

This report describes a series of strategies you can use to mitigate the impact of labour shortages on your business. To recap, they include the following:

- → develop an employee value proposition to make your business more attractive to existing and new employees
- → hire workers from underutilized segments of the labour force, notably newcomers to Canada
- → improve operational efficiency, automate processes and leverage technologies to become less dependent on workers
- → formalize your HR policies to put your business on a more solid footing

The bottom line?

Labour shortages are not going away. They are a fundamental challenge that, left unchecked, can hold your business back.

By taking action now to find and keep the workers you need, you will build the foundation for a stronger, faster-growing, more profitable business for years to come.

Methodology

The findings described in this study are based on the results of a literature review, an online survey, regression analyses and telephone interviews.

The online survey, conducted by Maru/Matchbox, canvassed 1,208 small to medium-sized businesses across Canada. A stratified sampling plan was prepared to ensure a sufficient number of respondents participated from every region in Canada. The results were weighted by region and company size to ensure that findings are representative of Canada's economy as a whole. The survey was carried out between April 30 and May 11, 2018. The maximum margin of error for a probability sample of 1,208 respondents is ±2.8 percentage points, 19 times out of 20. As this survey is based on a non-probability sample, these numbers should be interpreted with caution.

This study used logistic regressions to analyze the impact of labour shortages on sales growth, and the relationship between HR policies and sales growth. The regression results isolate the impact of these two factors on a company's sales growth, controlling for other factors, such as size, sector and geographic location. The regression equations show that both variables of interest (labour shortages and HR policies) are statistically significant predictors of sales growth with p-values below 0.05.

Further, eight telephone interviews were conducted with Canadian entrepreneurs to complement the data provided by the survey. Each entrepreneur was asked a series of questions to further assess the impact of labour shortages and the strategies pursued to mitigate that impact. The results of the interviews are incorporated into this report.

Annex A – Impact index

This annex describes how we calculated our labour shortages impact index. The objective of the index is to provide a more accurate indicator of the effect of labour shortages on firms. The index does this by taking into account how each type of impact affects a firm. Column A in Table 4 lists the different types of impacts included in our survey. Columns B to F show the extent to which the respondents agreed or disagreed with the statement. Index values are assessed on the following scales:

- one to 10 if the impact is deemed more important (that is, it has a greater effect on a firm's ability to compete or on its reputation)
- one to five if the impact is limited to the internal workings of the firm, such as the need to work more hours or raise salaries

For greater clarity, column G indicates which impacts were determined to have a higher or lower effect

Table 4 — **Impact index calculation table**

Column A	Column B	Column C	Column D	Column E	Column F	Column G
Extent of impact / **Type of impact**	**Completely disagree**	**Somewhat disagree**	**Neither agree nor disagree**	**Somewhat agree**	**Completely agree**	**Severity of impact**
Our firm's growth has been limited	1	3	5	7	10	Higher impact
We have been unable to fulfill or have delayed orders or deliverables to clients	1	3	5	7	10	Higher impact
Existing employees and/or owners have had to work more hours	1	2	3	4	5	Lower impact
The quality of the goods and/or services we provide to customers has deteriorated	1	3	5	7	10	Higher impact
We have had to raise wages and salaries and/or improve benefits to employees	1	2	3	4	5	Lower impact
Our business has become less competitive	1	3	5	7	10	Higher impact

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You will find:

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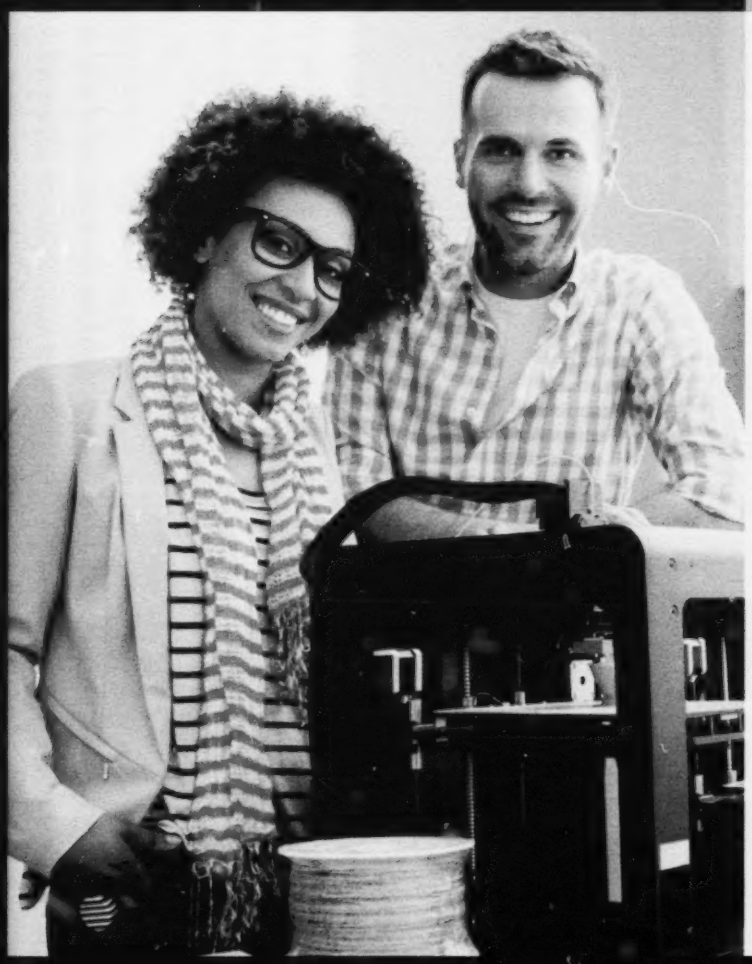
- → Our Chief Economist's column
- → The oil market update, which is now part of the *Economic Letter*
- → The Canadian business productivity benchmarking tool
- → And the most recent BDC studies



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